

Audit's

MARKET ANALYSIS OF REITS AND REAL ESTATE COMPANIES

Realty Stock Review

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Explosive Health Care REIT Growth Cools a Bit

Group Review & Ranking Issue: Leaseback and Participating Mortgage REITS Analyzed

Since we last reviewed the healthcare REIT group last April, yields have ratcheted sharply upward. The 10 healthcare REITs reviewed now yield 13.0% at current market prices, vs. 11.75% last spring.

What's happened since spring? More problem properties have surfaced, and cost and competitive pressures on operators of leased properties have reversed automatic growth in the field. The widely advertised liquidity and earnings problems at Beverly Enterprises, Inc., the nation's largest nursing home operator and sponsor of a REIT bearing its name, have sent a lot of investors to the sidelines.

The troubles spilled over into healthcare REITs — i.e., those investing in mortgages and leasebacks on healthcare facilities — with both Health Care Property Investors (HCP) and Health Care REIT (HCN) reporting non-performing assets. The problems haven't slowed HCP's growth and HCN has put its successful workout team on its non-performers.

Should you take this route to invest in the health care industry now? Ten of the 13 stocks reviewed are engaged in financing health care facilities, mainly thru purchase/leasebacks.

Investors buying health care REITs (and one MLP) are signing on as owners of special purpose properties with special risks which ought to be clearly understood. Investors have three concerns to address in deciding whether the higher yields are worth the risk:

1. Superheated growth. Starting from ground zero in 1985, this group has grown into a \$2.6 bil. industry. When that much money floods into a sector, there's always suspicion that too much money winds up chasing too few quality deals. Total asset growth has cooled this year to about 20%, down from 50% in 1987. Here's a brief table showing asset and equity (net equity plus depreciation) growth for 1988 thru Sept. 30, leverage ratios, and dividend yields for ten major health financiers:

	-Mil.\$-	Asset	Lev.	Div.
	Assets	Eq.	%Chg.	Ratio Yld
Amer.Hlth.Props.	\$269M	\$207	+1	0.3 11.5%
Angell Rl.Estate	152	50	+41	2.5 16.2
Beverly Inv.Pr.	285	163	+7	0.8 14.2
Forum Ret.Part.	138	78	+16	0.7 21.2
Health Care REIT	186	71	+2	1.6 13.1
Health Care Pr.	387	179	+20	1.3 10.6
HealthVest	442	235	+13	1.0 14.6
Hlth. & Rehab.Pr.	154	88	-1	0.8 13.0
Meditrust	445	251	+45	0.8 10.3
Univ.Hlth.Rlty.	136	99	+12	0.4 12.3
TOTALS	\$2,593M	1421M	+16%	0.9 13.0%

Health care REITs emerged to provide off-balance sheet financing for their sponsors but quickly became financiers for third-party operators. Now some REITs, notably Meditrust, are making mortgage loans and financing to-be-built properties.

2. The leverage and spread tradeoff. EPS are mainly influenced by leverage and spread. What this means is that healthcare REITs borrow funds to make new investments, seeking to make a net spread on each borrowed dollar. This works to the extent that assets earn as expected and interest rates don't rise on borrowings. In picking stocks, the amount of fixed-rate vs. floating-rate debt then is fully as important in EPS as the aggregate debt/equity ratio shown in the table. See individual reviews.

A related concern is asset quality. The medical field is hot and venture capital investors are entering rapidly; some are borrowing from the health care REITs (see Health Care REIT review). Despite all the growth predicted for health care, market saturation could shave spreads or, in some cases, lead to assets becoming non-earning.

3. Cost containment pressures. Medicare and Medicaid are the two biggest sources of patient funds to pay nursing home and hospital charges. Faced with soaring costs, Medicare and Medicaid continue to revise reimbursement rules to limit costs, and President-elect Bush says he'd like to carve \$5 bil. from the Medicare bill to trim the deficit. In some areas nurses and other medical personnel are in such short supply that operators are forced to use temporary help at a big extra cost.

We review also two related REITS:

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Health Care Cont. from Page 1

Eastgroup Properties, a leaseback trust diversifying into industrial properties; and Copley Properties, a participating mortgage lender operating primarily in office and industrial markets.

Group Reviews To Reach You More Frequently

With this issue we begin bringing you Group Reviews of major stock groups on a six-month cycle, instead of the previous eight-month cycle. The new schedule lets us bring to you reviews of about 100 of the largest and most actively traded realty stocks (generally those over \$50 mil. market value) at least twice a year.

We believe more frequent looks at these larger stocks will benefit all subscribers. News and reviews of other interesting stocks for investment will be included as needed. The first issue of each month (as this issue) will review from 10 to 14 stocks, with remaining stocks in the group reviewed the second issue of

each month. The six groups and the months in which we will publish reviews are:

Master Limited Partnerships	Jan./July
Mortgage REITs/Financial Serv.	Feb./Aug.
Investment/Community Builders	Mar./Sept.
Equity REITs	Apr./Oct.
Homebuilders/Developers	May/Nov.
Leaseback/Partic. Mtg. REITs	June/Dec.

Special Situation Alert: Troubled Texas apartment MLP Southwest Realty is in the midst of an effort to raise desperately needed cash through the sale of convertible preferred stock. Exceptionally aggressive investors with faith in Texas real estate should examine the deal carefully because it has tremendous potential upside. The downside, of course, is that the deal is almost frighteningly speculative. Turn to page 8 for a full review.

American Health Properties, Inc.

Sponsored by American Medical Intl. (AMI-NYSE), AHE owns a portfolio of Sunbelt acute care hospitals net leased to AMI. To diversify beyond AMI and become an independent REIT owner of health facilities, AHE has agreed to finance construction and/or own properties operated by several third-party operators.

Gut Issue: Can speciality health care facilities insulate AHE from the pressures on competitors? Since we last took stock of this group last April 8, the flood of money into health care facilities has slowed markedly (see page 1). In this frenetic investment field, AHE has staked its future upon controlled, strategic growth.

Although acute care hospitals are among Wall Street's least favored investments because of their exposure to Federal cost cutting pressure, AHE's seven initial hospitals are running about on schedule, generating overage income at about \$0.8-\$1.0 mil. annually or about \$0.07-\$0.09/sh. a year. These hospitals cover AHE's lease payments 3.0 times, best in the industry.

AHE starts with a base of seven acute care hospitals with 1,609 licensed beds, bought from AMI in Feb. 1987 after its initial offering, for \$271 mil. appraised value or \$168,400/bed. AMI operates the hospitals under guaranteed leasebacks at 11.6% of purchase price. Beginning in 1988, AHE will get 5% of incremental rents over 1987 minimum base rents. Hospitals had about 13% revenue rise in 1987, with outpatient services strong. The centers, beds, cost and minimum rents are:

Center/City	Beds	Mil.\$	Rents
Kendall Ctr., Miami	412	\$60M	\$7.0M
Palm Bch.Gar., Fla.	204	45	5.2
N.Fulton, Roswell,Ga.	175	25	2.9
Frye Ctr., Hickory,NC	275	40	4.6
Lucy Lee, Poplar Blf,MO	201	20	2.3
Presbyterian, Aurora,CO	134	26	3.0
Tarzana (Cal.) Reg.Ctr.	212	55	6.4
TOTALS	1,609	\$271M	\$31.4M

From that solid base, AHE is moving into psychiatric and rehabilitation care facilities. It is providing \$12 mil. construction financing for an 80-bed rehabilitation hospital being built next to its Denver hospital; AHE will buy the property and net lease it to Continental Medical Systems (CONT: OTC) when work is done in mid-1989. And it has agreed to provide \$110 mil. financing for three psychiatric hospitals in the Northeast. AHE has just funded the first, a \$60 mil. mortgage loan on a Four Winds, Inc. hospital in White Plains, N.Y. and expects to close on the remaining two in early 1989.

Like other medical REITs, AHE will borrow to fund these investments, hoping to earn a net spread on this leverage. AHE just sold \$23 mil. in dual currency convertibles at about 10% effective cost. AHE also hopes to do a \$100-\$125 mil. private placement early in 1989 to fund expansion and replace an expiring term loan.

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EPS and Cash Flow: AHE should report about \$2.14/sh. net cash flow, after depreciation, for 1988. For 1989 we see about \$2.22-\$2.25, depending upon net costs of pending financing.

Advice: Buy/hold. Pending financing will boost leverage from the present 0.3 debt/equity ratio, the group's lowest. Involvement in construction projects may boost risk moderately. AHE's strategy makes sense and should provide good yield plus moderate growth over the longer term. (MJC) MJH

AHE-NYSE Rank B Dec. years 11.09 mil. shs.

Price: \$18.50 Div. \$2.12 Yld. 11.5% P/CF Ratio: 8.6

Year	Op.EPS	Op.CFS	Div.	High	Low	Yield
1987	\$1.34a	\$1.78a	\$1.72a	\$20.00	\$12.00	15-9%
1988E	1.55	2.14	2.10	19.50	14.88z	14-11

z-To date. a-Approx. 10.5 mon. beginning Feb. 20.

Debt: \$65.4 mil. Equity: \$197.2 mil.; Accum. deprec. \$10.2 mil. (combined \$18.70/sh.). Debt/equity ratio: 0.3-1. AMI owns 9.8%.

Address: 9665 Wilshire, Beverly Hills, Cal. 90212. (213) 276-6245.

Angell Real Estate Co.

A healthcare leaseback REIT, ACR has made impressive strides in growing its portfolio in 1988. Most recently ACR added 7 facilities acquired from Indianapolis retirement community developer The Forum Group (see below) for \$21.5 mil. or \$28,515 per bed. ACR now owns 81 nursing homes with 5,620 beds (a 15% increase from 1987 year-end). The net leased units are located in Col., Ill. Ind., Kent., N.C. and Tenn. ACR converted from MLP to REIT status in Jan. 1988.

Will diversification ease disdain of ACR's Beverly Enterprises connection? Beverly Enterprises (BEV-NYSE), the troubled healthcare operator, is lessee of 72% of ACR's facilities. In addition to the recent acquisition, in Mar. 1988 ACR diversified away from BEV by acquiring nine facilities from sponsor Angell Care, Inc. with 1,035 beds for \$27 mil. (\$26,090/bed). Homes are in N.C., Tenn., Col. and Ill. They are added to two facilities already purchased/leased back to Angell Care Inc. and five to independent operators, all on a net lease basis.

With 1988's acquisitions, ACR has reduced portfolio risk. The \$1.52 payout rate is secure under current cash flow level and

should be stable for balance of 1988, barring major troubles with BEV, who we believe will stay current on its lease payments (For more on BEV's problems see Beverly Investment Properties below). New facilities should add about \$0.20-0.25/sh. cash flow on an annual basis, which makes a dividend increase in 1989 likely. New earning capacity should highlight ACR's diversification and bring back tentative investors.

Advice: Buy/hold shares in near term to capitalize on cash flow increases from new centers. If interest rates climb, new debt financing could become prohibitive, limiting growth. (MJH)

ACR-NYSE Rank B Dec. years 3.62 mil. shares

Price: \$9.25 Div. \$1.52 Yld. 16.4% Price/CFs

Year	Op.EPS	Op.CFS	Div.	High	Low	Yield
1986	(0.20)a	\$0.09a	\$0.26	\$16.00	\$13.25	NM-NM
1987	0.25	1.65	1.50	15.88	9.63	16-9%
1988E	(0.05)	1.68	1.52	12.25	8.50	18-12z
1989E	NE	1.88	1.70			

a-Initial period from June 30, 1986. z-To date.

Debt: \$106.3 mil. Equity: \$42.2 mil.; Deprec. \$7.3 mil.; total \$13.68/sh. Debt/Equity ratio: 2.5-1.

Address: Box 48, 915 W. Fourth St., Winston-Salem, NC 27102. (919) 723-7580.

Beverly Investment Properties, Inc.

BIP owns 111 health facilities with 13,100 beds and an average cost of approx. \$21,600/bed. All but seven are net leased to Beverly Enterprises (BEV-NYSE), BIP's sponsor and largest U.S. nursing home operator. BIP terminated its advisory agreement with BEV in Aug. 1988, to distance itself from the plagued operator and avoid conflicts of interest.

Gut Issue: How will BIP meet stringent, short-term repayment terms of credit revolver negotiated after BEV problems surfaced? Rising operating costs and state regulators put the squeeze on BEV, which lost \$30.5 mil. in 1987 and another \$12 mil. thru Sept. When BIP's \$150 mil. revolver came due in May, 1988, it could only get one-year money (\$117 mil.) of which \$55 mil. must be repaid by Jan. 1989 (now \$49 mil. with \$6 mil. prepaid).

The loan is also callable if BEV can't make at least 80% of rent due BIP. BEV's default risk subsides as it raises cash by selling facilities (including a \$62 mil. sale to Health Care Property Investors). We expect payments to BIP to continue since the homes leased from BIP are profitable. As creditor, BIP gets first drink, but if BEV can't make payments, the gears come to a halt.

BIP shares have traded as low as \$9.75 and at the current \$11.38 yield 14% on the \$1.60 payout, the max banks will allow. Confidence votes have been cast for BEV. An investor group led by Castle & Cooke chairman, David Murdock, recently acquired a 6.3% BEV stake following 5.9% acquired by the Pritzker family.

Advice: Avoid for all but most speculative accounts. We believe BEV will stay current, but BIP's ability to refinance bank lines is still in question. BIP is actively seeking to sell facilities as well as renegotiate with creditors. BIP's default risk increases every unresolved day toward Jan. 31. (MJH)

BIP-NYSE Rank C Dec. years 8.20 mil. shs.

Price: \$11.38 Div. \$1.60 Yld. 14.0%

Yr.	Op.EPS	Op.CFS	Div.	High	Low	Yield
1986	\$1.62	\$2.20	\$2.13	\$29.00	\$19.38	11-7%
1987	1.57	2.38	2.30	26.38	16.50	14-9
1988E	1.40	2.25	1.79	20.38	9.75	18-9z
1989E	NE	1.60				

z-To date. NM-Not meaningful.

Debt: \$120.3 mil. Equity: \$146.9 mil.; deprec. \$16.1 mil.; total \$19.90/sh. Debt/equity ratio: 0.84-1.

Address: 99 S. Oakland Ave., Pasadena, Cal. 91101. (818) 405-0195.

Forum Retirement Partners L.P.

Indianapolis-based FRL has tried to cure its sagging retirement apartment operations by betting heavily on health care facilities. FRL's L.P. holdings are split into 6.049 mil. preferred units paying \$1.35 in annual distributions, and 2.055 mil. common units paying no dividends. The two classes will begin receiving the same dividends in Dec. 1989.

Gut Issue: FRL has pulled back on a new strategy to boost sagging cash flow. The L.P. had agreed to buy nine nursing homes and four facilities for developmentally disabled children from sponsor Forum Group Inc. (FOUR-OTC). At the same time, four of its retirement centers were scheduled to be sold.

However, all but one of the retirement center sales have collapsed and FRL officials are "rethinking" the nursing home purchases. Further, the partnership has not been able to get a favorable tax ruling on the children's facilities. So, instead of a transformation, FRL will probably continue to look pretty much as it does today.

At Sept. 30 FRL reported of nine-month operating cash flow at 55 cents per preferred unit vs. distributions of \$1.0125. The shortfall was made up through borrowings and stock sales to FOUR. Our less liberal analysis, however, shows the L.P.'s cash

flow per combined unit at just 4 cents for the nine months.

Sept. quarter long-term debt increased 56% from Dec. 1987 to \$52.6 mil. vs. \$72.4 mil. equity leaving a debt/equity ratio of 0.73-1. That's in the middle of the range of leaseback REITs. Even with low leverage, however, interest coverage is a lean 1.1.

Advice: Sell and stay away. FRL's poor financials aren't going to get much better. When the common units start receiving distributions at the end of 1989, the preferreds will probably get hammered because cash flow growth is very unlikely to get anywhere near required levels. We don't even have any interest in FRL as a potential recovery situation. (JMH)

FRL-ASE Rank C Dec. years 5.93 mil. Pfd. units
Price: \$6.63 Div. \$1.35 Yld. 20.4%

Year	Op.EPU	CFU	D iv.	High	Low	Yield
1986	NM	NM	NM	\$12.75	12.63	NM
1987	(0.10)	\$0.30	\$1.35	14.25	7.75	17-9%
1988E	NE	NE	1.35	11.38	6.25	22-12z
1989E	NE	NE				

z-To date. NM-Not meaningful; offered Dec. 1986. NE-No estimate.

Debt: \$52.6 mil. Combined preferred and common equity: \$72.4 mil.; deprec. \$5.5 mil.; total \$9.62 combined shs. Debt/equity ratio: 0.73-1. FRL's current value, \$15.88/un. at 12/87.

Address: 8900 Keystone Crossing Ste. 1200, P.O. Box 40498, Indianapolis, Ind. 40498. Phone (317) 846-0700.

Health Care Property Investors, Inc.

The first of the 1980 generation of health care REITs, HCP was the first to break away from sponsor National Medical Enterprises and become internally administered. HCP also was first to buy properties net leased to third-party operators, giving it diversification by dealing with more than one health facility operator and property types. Its leadership is shown by a dividend yield that is the lowest among the health care REITs.

Gut Issue: Can HCP sidestep the pitfalls now surfacing in health care? We asked this question when reviewing HCP in Aug. and it's still the key. As noted on page 1, health care REITs thrive on positive leverage and spread. If assets become nonearning, spread vanishes and leverage becomes an albatross. The current example: Beverly Investment Properties, another major health care REIT, which has pared payout 32% under bank pressure following massive losses at its sponsor, Beverly Enterprises (see separate BIP review).

HCP dodged one bullet last summer, when a small private nursing home operator, Columbia Corp. of Nashville, ended leases on eight facilities and later went into bankruptcy. HCP has now re-leased six and expects to complete new leases on the remaining two early in 1989, both of which are cashflow positive. In the Columbia case, HCP took over Columbia's security deposit, a \$2.5 mil. letter of credit, so that net loss from the failure is estimated at no more than 5c/sh. At present HCP has \$22.3 mil. LOCs backing up its other leases, including \$10 mil. from Beverly Enterprises Inc. following HCP's acquisition of 26

nursing homes and a congregate living center for \$62 mil. in Oct.

The Beverly acquisition gives HCP one of the industry's most diversified portfolios costing \$467 mil.: 116 nursing homes, four rehab hospitals, two acute care hospitals, one psychiatric care facility, and six congregate care centers. HCP is pressing forward in congregate care via a joint venture with Colson & Colson Constr., Salem, Ore., stressing lowend units that rent rapidly.

Liquidity and Cash Flow: Altho HCP's \$201 mil. debt is 1.3 times equity, all but \$21 mil. is fixed or capped rate, insulating EPS. HCP has a good record of raising money when it needs funds. We see 1988 net cash flow at about \$2.85-2.90/sh., with 8%10% gain to \$3.10-\$3.15 in 1989.

Advice: Buy for longer term. HCP is the quality holding, for both growth and above average income, in a group that should be approached cautiously for now. (KDC)

HCP-NYSE Rank A Dec. years 8.16 mil. shares
\$25.50 Div. \$2.71 Yield 10.6%

Yr.	Op.EPS	CFS	Div.	High	Low	Yld.Range
1985	\$1.04a	1.31	\$.73	23.50	19.00	4- 3%
1986	1.79	2.50	2.30	31.25	20.25	11- 7
1987	1.74	2.70	2.46	31.38	21.75	11- 8
1988E	1.85	2.90	2.70	28.25	23.63	11- 9z
1989E	1.90	3.10	3.00			

a-Seven months. z-To date.

Debt: \$201.5 mil.; Equity: \$156.0 mil.; accum. deprec. \$23.1 mil.; total \$21.94/sh. Debt/equity ratio: 1.31. NME owns 5.8% of shares.

Address: 10990 Wilshire, Ste. 1200, Los Angeles, CA 90024. (213) 473-1990.

HealthVest

HVT was organized in May 1986 to own 35 hospitals and other health facilities operated under lease by its sponsor, Healthcare International Inc. (HII-ASE). HVT has grown rapidly to own over 2,000 beds and dividends have increased.

Gut Issue: HVT tenant and sponsor HII is showing signs of being unable to handle rapid expansion. With a debt/equity ratio approaching 5:1, HII is very heavily leveraged despite the 1986 spin-off of properties to HVT. Revenues increased rapidly in its June 1988 fiscal year, up 26% to \$267.5 mil., but net income sank 76% to \$1.1 mil. (7 cents/sh.) largely due to start-up costs from three new hospitals at a construction cost of \$120 mil. Cash flow ran negative \$1.66/share, the second consecutive year of red cash flow.

However, HII's problems have not yet hurt HVT's bottom line. HVT's cash flow is dependent on the sponsor's bed revenue, not profitability. HVT's nine-month CFS increased a healthy 11.7% to \$2.01. By the end of 1988, 15 of the facilities are expected to be paying bonus rent to HVT under the lease terms.

Types of HVT properties by invested assets.

Psychiatric	51%
General health	27%

Rehabilitation	11%
Skilled nursing	5%
Substance abuse	3%
Medical offices	3%

Another plus: HVT's debt is substantially fixed-rate, so the trust will have fewer problems with increasing interest rates. In March, HVT borrowed \$50 mil. at a fixed 9.68% rate for five years. An additional \$50 mil. 10.68% fixed-rate 10-year financing was secured in July.

Advice: Hold. Uncertainty over HII will continue to depress HVT's stock price. But a 14.7% yield is justifiable compensation. HVT's own leverage, however, is on the high side at 0.97. The key is whether revenue from individual properties will continue to grow. (JMH)

HVT-ASE Rank B Dec. years 11.66 mil. shs.

Price: \$17.63 Div. \$2.60 Yld. 14.7%

Year	Op.EPS	Op.CFS	Div.	High	Low	Yield
1986	\$1.05a	\$1.25	\$1.25	\$23.50	\$19.75	11-9%a
1987	2.01	2.44	2.34	23.25	15.00	16-10
1988E	2.18	2.70	2.58	21.13	16.50	16-12z
1989E	2.30	2.85	2.75			

Debt: \$217; Equity: \$224.3; Deprec. \$10.6; total \$20.14/share. Debt/Equity Ratio: 0.97-1.
Address: 9737 Great Hills Tr., Box 4008, Austin, TX 78765. (512) 343-5234. Finances 9/88 (Mil.\$):

Health Care REIT, Inc.

HCN finances construction and start up of smaller nursing homes, mostly in the Midwest, by making land/leasebacks meant to be repurchased via options in 6-10 years. It has expanded into retirement apartment units. It finances or owns 74 facilities with about 6,800 nursing home beds and 813 retirement center units. HCN uses modest leverage and has periodically sold stock to raise new capital. EPS and dividends have grown long-term, altho HCN recently pared payout while dealing with several problem homes.

Gut Issue: How fast can HCN recover from recent setbacks? In Oct., HCN cut payout 13.6% to \$1.52 annual rate while it moves to restore and/or divest six troubled facilities in four locations. HCN has invested \$13.2 mil. in the six, or 7.3% of gross investments. They became nonearning largely because of cost pressures and competitive markets in the case of a N.Mex. retirement center. The six:

Location	Beds	Mil.\$	Occ.	Comment
Ft. Wayne, Ind.	204(a)	\$6.1	73%	May sell early 1989
Detroit, Mich.	139	1.9	97	Operator tax troubles
Cape Verde, AZ	120	3.3	66	HCN seeks new operator
Santa Fe, N.Mex.	150	2.0	E55	Leaseup seen by 12/89
a-Three facilities. E-Estimated.				

Operators at the Ft. Wayne and Michigan properties ran afoul of cost and competitive pressures, and the Detroit operator failed to pay Federal payroll taxes. The Ariz. nursing home and Santa

Fe retirement center have both been slow leasing, with the Santa Fe property expected to fill by end of 1989. In the others HCN plans to sell and/or seek new operators as rapidly as possible. Given its niche of financing smaller properties, HCN has hit dry spells before, notably when it foreclosed and resold six Texas nursing homes in 1985-6. An affiliate of the adviser specializes in these workout situations and is active in the four above.

EPS, cash flow and liquidity: HCN added \$0.16/sh. to its loss reserve in the Sept. qtr., cutting EPS 20% to \$0.36/sh. As result, HCN likely will report about \$1.70-\$1.75/sh. EPS for 1988, down 7%-10%. Gross cash flow, including loss provisions, should be about \$1.80/sh., up about 1%-2%. EPS and CFS for 1989 will depend importantly upon the pace of recovery in these four situations. Liquidity appears adequate.

Advice: Buy in aggressive accounts for longer-term recovery. We have a good comfort level in HCN's ability to deal with problems, and investors get 13% yield while waiting. (KDC)

HCN-ASE Rank B Dec. years 5.92 mil. shs.

Price: \$11.63 Div. \$1.52 Yld. 13.1% Price/EPS: 6.8

Year	Op.EPS	Op.CFS	Div.	High	Low	Yld.Range
1985	\$1.64	NA	\$1.46	\$17.13	\$12.75	12-9%
1986	1.60	1.71	1.54	19.13	12.88	12-8
1987	1.89	1.91	1.65	18.38	13.63	12-9
1988E	1.70-5	1.80	1.60	18.38	11.38	14-9z
1989E	NE	NE				

Debt: \$111.4 mil. Equity at cost: \$71.0 mil. (\$12.00/sh). Debt/equity ratio: 1.57
Address: One SeaGate, #1950, Box 1475, Toledo, O. 43603. (419) 247-2800.

MT-NYSE Rank B Dec. years. 15.72 mil. shs.
Price: \$17.50 Div. \$2.00 Yld. 11.2% Price/CFS: 8.5

Year	Op.EPS	Op.CFS	Div.	High	Low	Yield
1985	\$0.24a	\$0.31	\$0.31	\$13.17	11.67	NM- NM
1986	1.17	1.61	1.58	19.83	12.83	12-8%
1987	1.24	1.84	1.78	20.50	14.00	13-9
1988E	NE	2.06	1.94	21.38	16.25	12-9z
1989E		2.20-5	2.10			

a-From Oct. 17, after offer at \$13.33. z-To date. NM-Not meaningful.
Debt: \$186.0 mil. Equity: \$237.5 mil.; Accu. dep.: \$13.1 mil.; total \$15.94/sh. Debt/equity ratio: 0.781.
Address: 128 Technology Ctr., Waltham, Mass. 02154. (617) 7361500.

Universal Health Realty Income Trust

UHT is a REIT that owns eight acute-care hospitals and three psychiatric hospitals with a total of 1,124 beds leased back to sponsor Universal Health Services Inc. (UHSIB:OTC).

Gut Issue: Can cash flow growth fueled by stock buybacks win investor favor in the long term? Nine-month cash available for distribution jumped 13.7% to \$1.16/sh. But on an aggregate basis, nine-month operating cash flow sagged 3.5% to \$8.6 mil. because of increased borrowing partly to finance the buy-backs. Interest expense increased 157% to \$2.2 mil. at an average interest rate of 10.9%. UHT's credit line has been increased to \$40 mil. from \$20 mil.

UHT has bought back 1.46 mil. shares at \$9.88/share during the nine months to Sept., 20% of the shares outstanding on Dec. 31, 1987. During the Sept. quarter alone, UHT repurchased 100,600 shares at \$11.75/share. In August, UHT trustees approved repurchase of another 500,000 shares. The trust's strategy has been to capitalize on the spread between borrowing costs and UHT's high dividend yield. While the current yield on UHT's shares has dropped to 12.3% from 13-14% at last winter's lower prices, we expect the trust to continue buying on dips. As the pool of outstanding shares continues to decrease, shareholders will ultimately win out through higher dividends despite declining aggregates.

UHT also borrowed cash to issue its first mortgage. The trust has loaned \$10 mil. to Lake Shore Hospital in Manchester N.H. for 10 years at 13.56%. Another \$3 mil. at an undisclosed rate will be advanced in mid-1989. An equity kicker gives UHT 90% of the acute-care hospital's appreciation up to \$3.6 mil and 10% of the appreciation above that point.

Advice: We think UHT is a strong buy. With leverage at a low 0.43-1, UHT execs have proven to be smart, conservative operators and we see the systematic buyback plan as a smart investment. The recent authorization to buy back another 500,000 shares has created a floor for the stock price. We are, however, a bit nervous about the declining aggregate cash flow and advise shareholders to watch carefully. (JMH)

UHT:NYSE Rank: A Dec. years 7.16 mil. shs.

Price: \$11.38 Div. \$1.40 Yld. 12.3%

Year	EPS	CFS	Div.	High	Low	Yield
1986	0.02	NM	0.00	\$10.75	10.13	0-0 %
1987	1.05	1.37	1.33	11.63	8.25	16-11
1988E	1.18	1.58	1.42	12.38	9.25	15-12z

z-To date.

Finances 9/88 (Mil.\$): Debt: \$40.4; Equity: 94.4; Deprec. \$4.9; total \$13.87/sh. Debt/equity ratio: 0.43-1. Address: 367 S. Gulph Rd., King of Prussia, Pa. 19406. (215) 265-0688

Copley Properties, Inc.

COP is a developmental participating mortgage REIT, investing in lucrative (riskier) to-be-built, properties via mortgages and joint ventures. COP typically invests in quick to build and lease industrial and research/development buildings, by acquiring 50%-60% equity interests by funding essentially all land and improvement costs so as to buy at wholesale cost.

COP's \$81.4 mil. net real estate investments are: 60% construction loans; 33% joint ventures; 5% mortgage loans; and 2% land/options. COP has funded \$85.4 mil. in nine properties (12 total with 4 mil. sq. ft., 87% leased), out of \$103.7 mil. committed. Six are under development with 555,130 sq. ft., 30% leased.

Gut Issue: With new investments opportunities harder to find, can COP bolster cash flow thru increased leasing and funding? In the Sept. quarter COP signed a five year lease for 49% (38,500 sq. ft.) of the Los Angeles Corporate Center to begin Jan. 1989. The effective rent is \$0.85/sq. ft. for an approx. 8% return. Negotiations for remaining space are on-going, but even if leased on a similar basis, would not match the 12% yield COP received on the construction loan. This translates into a cash flow drop of up to \$0.15 per share and until space is leased add \$0.10 to that. Lease-up does alleviate a worse cash drain, since the interest reserve on this project ended in June.

In the Sept. qtr. leasing commitments for over 125,000 sq. ft. of space were made. New leasing should add approx. \$0.15-0.25 per share longer-term. New leases: Central Dist. Ctr., Phoenix, leased its remaining 12,300 sq. ft.; Park North Bus. Ctr., Atlanta,

leased 15% in phase I, bringing the project to 87%; Phases I and II of University Bus. Ctr., R&D/office park in Santa Barbara, CA, each signed 20,000 sq. ft. leases this quarter. Phase I of is 86% leased and Phase II (99,300 sq. ft.) which should be completed by year-end, is 20% pre-leased. A lease for 32,000 sq. ft. has been signed in Phase II of Huntwood Assoc., (180,000 sq. ft.) a Hayward, CA industrial park slated for completion by year-end and is 15% pre-leased. Phase I is 45% pre-leased.

Additional funding of \$5.05 mil. was made in the Sept. quarter, which brings in another \$0.10 to 0.15 per share. Likely net result of Sept. quarter activity is approx. \$0.125/sh. cash flow increase.

Advice: Hold/buy. COP's strategy is aggressive in search of high reward. Slow leasing at Corporate Center along with Hayward, Calif. properties will be drag, but leasing of other properties is progressing well and is adding to cash flow. (MJH)

COP:ASE Rank B Dec. years 4.01 mil. shares.

Price: \$19.13 Div. \$1.68 Yld. 8.8%

Year	Op.EPS	Op.CFS	Div.	High	Low	Yld.Range
1985	\$0.62	\$0.66a	\$0.28	\$19.75	16.00	NM - NM
1986	1.36	1.51b	1.65	20.00	16.38	10-8%
1987	1.06	1.59b	1.68	22.88	14.63	12-7
1988E	0.90	1.62	1.68	20.00	16.75	10-8z
1989E	NE	1.60	1.68			

a-began operations 5/85. b-Per Audit; Trust says: '86, \$1.63 & '87, \$1.80. z-To date. NM-Not meaningful.

Debt: \$12.2 mil. Equity: \$69 mil. or \$17.25 sh. Debt/Equity Ratio: 0.18 Current value 12/87: \$22.88/sh.

Address: 399 Boylston St., Boston, Mass. 02116. (617) 578-1200.

Eastgroup Properties

EGP is a REIT that has been gradually exiting the land leaseback business in favor of operating properties. EGP is one of seven REITs under the umbrella of Eastover Group, based in Jackson, Miss. Eastover controls 39.2% of EGP's shares and Kemper Financial Services controls another 15.9%.

Gut Issue: EGP continues to work toward a stable but steadily increasing dividend through property swaps. In the past EGP has paid substantial capital gains dividends which sometimes disheartened investors more interested in predictable distributions from realty stocks. EGP is busily swapping its leaseback land for Southwest industrial property. So far this year, the trust has traded parcels under two apartment complexes and five shopping centers for seven warehouses in Dallas and in Denver. EGP also paid \$3.3 mil. in cash for the warehouses. The buyers of EGP's land bought the industrial properties immediately before the swaps. The arrangement allows EGP to avoid paying the \$6.3 mil in gains in addition to keeping them tax-free.

The new properties are almost fully occupied and were purchased at capitalization rates averaging around 9.5%. EGP anticipates the new properties will yield 2% more in cash flow than the swapped land. The transactions accelerate EGP's shift toward owned-and-operated properties. EGP's real estate owned has increased to 31% of real estate assets taken at cost compared with 18.6% in Nov. 1987. Leased land accounts for just 19.3% of real estate vs. 36% a year ago. EGP expects to complete

another large swap by the end of January, most likely for additional industrial space.

On the negative side, EGP has been unable to dispose of slow-leasing North Shore Business Park in Hercules, Calif. Because EGP recently acquired the remaining 20% of the development partnership it didn't already own, the park's development costs and slow leasing will be an even greater cash flow drain. Between the office park and transaction costs on the swaps, nine-month CFS dropped 9.8% to \$1.84.

Advice: Buy. EGP's moves are smart ones. Trust officials are keen on buying solid properties in depressed areas carrying greater appreciation potential. Any sale of the California office park should trim 20 cents/share in negative cash flow. (JMH)

EGP-ASE Rank B Nov. years 2.54 mil. shares
Price: \$22.25 Div. \$2.60 Yld. 11.7%

Year	Op. EPS	Cap. Gns.	Div.	High	Low	Yield
1985	\$2.70	1.70	6.96b	\$40.00	\$30.25	23-17%
1986	2.36	0.74	4.17b	33.25	27.25	15-12
1987	1.92	0.59	2.90b	31.75	19.63	15-9
1988E	NE	NE	2.60	25.25	20.00	13-10

b-Incl. cap gains: '85-\$4.35; '86-0.96; '87-1.37; average 45%.

Debt: \$0.4 mil. Equity: \$48.9 mil., equal to \$18.88/sh. Debt/equity ratio: 0.02-1.
Address: Box 22728, 300 One Jackson Pl., Jackson, MS 39201. (601) 948-4091.

Southwest Realty Ltd.

Southwest (SWL—ASE—\$0.63) is in the midst of a preferred share offering that is a tempting play on Texas real estate if you have a strong stomach and a lot faith. A master limited partnership with interests in 4,179 Texas and Oklahoma apartments, SWL is struggling to stay afloat by offering a maximum 550,772 (or \$8.2 mil. worth) of convertible preferred depositary receipts, in a rights offering to limited partners. Limiteds can subscribe to \$15 cumulative preferreds yielding 12%, altho initial distributions will be a return of your own cash (tax-deferred at that).

Each preferred share is convertible at \$1.50 into 10 common units until April 1994. The preferreds will carry five detachable warrants giving the holders right to buy SWL units for \$1.25 each until Dec. 1993. SWL must raise a minimum of \$2.55 mil. or the offering will be cancelled; SWL says its general partners plan to subscribe for 69,355 preferreds, leaving \$1.76 mil. to go. BRT Realty Trust further agreed to lend \$2 mil. to SWL on a second mortgage on one apartment, easing cash pressures.

SWL is desperate for the money. Average occupancy in its apartments is running around 87%, up four points from a year ago. But units are bringing in about \$254/month rent, down 14% from 1987. Book equity is negative \$1.01/unit, but management believes the properties, most of which were bought 7-12 years ago, are worth roughly double their book value, using a capitalization rate of roughly 11%. That would put actual equity at \$7.90 per unit, which would be cut to about \$2.90/unit fully diluted if

all preferreds are sold.

Cash flow ran negative \$0.45/un. during the nine months ended Sept. and is expected to stay negative through 1991. The proceeds from the sale will be used for renovations and working capital.

So how do you feel about Texas real estate? A lot of seasoned speculators are still fearful of this area. An adventurous acquaintance invests heavily in start-up, no-name computer software companies *but believes Texas real estate is too risky*. Texas real estate has given more ulcers than Texas chili.

But if you believe Texas employment growth, apartment occupancies and rents will rebound longer-term, SWL could be a good leveraged vehicle. The 12% cash return is okay and longer-term upside could be much stronger. SWL units will have to increase to more than \$1.41 for the conversion right and warrants to have any real value. However, if SWL units reach \$2 by 1993, converting the preferreds and exercising the warrants would return around 21.6% on an annual basis (including the 12% dividend).

Advice: Not for the weak-willed looking for short-term profits. This is probably the most speculative play we've ever recommended. But we believe the fundamentals are there both in the company and in the Texas economy. Plan this for an absolute minimum of three years and more likely five. (JMH)